

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 537 - SB 521

February 24, 2011

SUMMARY OF BILL: Creates a privilege tax equal to one-cent per fluid ounce levied on bottled soft drinks sold in Tennessee that contain sugar or caloric sweeteners. Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 4.5 percent.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - \$8,888,300

Decrease Local Revenue – Net Impact - \$3,015,300

Assumptions:

- The Department of Revenue (DOR) indicates, based on Congressional Budget Office data, that a one-cent federal excise tax levied on each 12-ounce serving of bottled soft drinks would generate about \$1.5 billion per year.
- DOR estimates Tennessee's share of the national bottled soft drink market to be approximately 1.7 percent.
- Thirty percent of bottled soft drinks contain sugar or caloric sweeteners.
- The recurring increase in state revenue derived from the proposed bottled soft drink tax will be approximately \$91,800,000 (\$1.5 billion x 1.7% x 30.0% x 12 ounces).
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 (\$476,900,000 x 102.0% x 102.0%).
- Each one-percent increment of the current 5.5 percent state sales tax rate levied on food and food ingredients generates approximately \$90,212,145 (\$496,166,800 / 5.5) of state sales tax revenue. Therefore, a recurring decrease in state sales tax revenue of \$90,212,145.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The recurring decrease in local government revenue from loss of state-shared sales tax revenue will be \$4,142,993 (\$90,212,145 x 4.5925%).

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- Fifty percent of sales tax savings will be spent on other non-food sales-taxable goods and services.
- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$1,127,652 ($\$90,212,145 \times 50.0\% \times 2.5\%$ average local option sales tax rate).
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$3,157,425 ($\$90,212,145 \times 50.0\% \times 7.0\%$ current state sales tax rate).
- The net recurring decrease in local government revenue resulting from the sales tax rate reduction on food will be \$3,015,341 ($\$4,142,993 - \$1,127,652$).
- The recurring net decrease in state revenue resulting from the sales tax rate reduction on food will be \$82,911,717 ($\$90,212,145 - \$4,142,993 - \$3,157,425$).
- The total net recurring increase in state revenue will be \$8,888,283 ($\$91,800,000$ increase from bottled soft drink tax - $\$82,911,717$ decrease from sales tax rate reduction).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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